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BEFORE THE ARIZONA CORPORATION COMMISSION

MIKE GLEASON

Chairman

WILLIAM A. MUNDELL

Commissioner

JEFF HATCH-MILLER

Commissioner

KRISTIN K. MAYES

Commissioner

GARY PIERCE

Commissioner

Arizona Corporation Commission

DOCKETED

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IN THE MATTER OF ARIZONA PUBLIC
SERVICE - APPLICATION FOR
APPROVAL OF AN ELECTRIC SUPPLY
AGREEMENT WITH LUKE AIR FORCE
BASE.

DOCKET NO.E-01345A-06-0757

DECISION NO. 69416

ORDER

Open Meeting
April 11 and 12, 2007
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Arizona Public Service Company ("APS") is certificated to provide electric service as a public service corporation in the State of Arizona.

2. On December 1, 2006, APS filed an application for approval of an electric supply agreement with Luke Air Force Base ("Luke"). On December 12, 2006, APS filed a letter waiving the 30-day time clock. On March 27, 2007, APS filed an amended version of the agreement with references to a proposed rate schedule in APS' ongoing rate case removed.

3. Luke has installed two photovoltaic ("PV") systems (for a total of 325 kW) under APS' Environmental Portfolio Standard Credit Purchase Program to generate a part of its electric load. APS has provided a rebate of \$489,600 for a 100 kW system and will provide a rebate of \$1,011,600 for a 225 kW system to help reduce the cost of the PV systems to \$1,855,131.

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1 4. Luke currently purchases all of its electric power from APS under APS' rate
2 schedule E-34 (Extra Large General Service). If Luke operates the PV systems, Luke would be
3 purchasing partial requirements service from APS instead of full requirements service. Under
4 APS' current rate schedules, Luke would have to take partial requirements service under E-55
5 (Partial Requirements Service 3,000 kW or Greater). E-55 was originally designed for customers
6 operating large-scale cogeneration facilities with capacity factors higher than those of PV units.
7 Because of the higher basic service and standby charges on E-55, Luke would pay more for partial
8 electricity requirements under E-55 than it currently pays for full requirements service under E-34,
9 making operation of the PV systems uneconomical for Luke. Therefore, APS has offered Luke an
10 electric supply agreement with terms that would allow operation of the PV systems to be
11 economical for Luke.

12 5. The agreement would become effective upon Commission approval and remain in
13 effect for five years. The agreement could be terminated by either party with 30-days notice or by
14 APS if Luke does not operate the PV units for 60 consecutive days other than during planned
15 scheduled maintenance periods. The minimum electric demand contracted for under the
16 agreement would be 9,262 kW. The maximum demand would be 13,893 kW. Luke would have to
17 give 30 days advance notice of any demand above the maximum. Luke does not intend to sell any
18 excess electric energy to APS.

19 6. Under the proposed agreement, Luke would pay the Basic Service and Revenue
20 Cycle Service charges (currently \$2.926 per day) from E-34. Supplemental service, defined as
21 demand and energy contracted by Luke to augment the power and energy generated by Luke's PV
22 systems, would be provided under the rates contained on E-34. Those rates currently consist of
23 \$8.943 per kW and \$0.03183 per kWh.

24 7. Luke would purchase standby service to have replacement power available when
25 the PV systems are not operating. The monthly delivery charge for standby service would be
26 calculated by multiplying the unbundled delivery charge (currently \$3.943 per kW) from E-34 by
27 the 15-minute integrated kW measured on the generator meter during Luke's monthly peak
28 demand.

9. Using 2006 consumption history and estimating a 20 percent capacity factor for the PV generation, Luke would have paid about \$3,575,000 for the year (\$0.0549/kWh) under the proposed agreement while operating the PV systems, compared to \$3,602,000 (\$0.0548/kWh) under E-34 without operating the PV systems and \$3,624,000 (\$0.0556/kWh) under E-55 with the PV systems.

11. Staff has also analyzed this application in terms of whether there were fair value implications. Compared to APS' total revenues, any impact from this agreement would be de minimus, and any impact on APS' fair value rate base and rate of return would also be de minimus.

CONCLUSIONS OF LAW

2. The Commission has jurisdiction over APS and over the subject matter of the application.

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ORDER

IT IS THEREFORE ORDERED that the agreement, as amended, with Luke be and hereby is approved.

IT IS FURTHER ORDERED that approval of the agreement at this time does not guarantee any future ratemaking treatment of the agreement with Luke.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I BRIAN C. McNEIL, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this 16th day of April, 2007.

BRIAN C. McNEIL
Executive Director

DISSENT: Fauell Blum

DISSENT: _____

EGJ:BEK:tdp/KOT

1 SERVICE LIST FOR: Arizona Public Service Company
2 DOCKET NO. E-01345A-06-0757

3 Mr. Robert J. Metli
4 Snell & Wilmer L.L.P.
5 One Arizona Center
6 400 East Van Buren
7 Phoenix, Arizona 85004-2202

8 Mr. Thomas L. Mumaw
9 Pinnacle West Capital Corporation
10 Post Office Box 53999
11 Phoenix, Arizona 85072-3999

12 Mr. Ernest G. Johnson
13 Director, Utilities Division
14 Arizona Corporation Commission
15 1200 West Washington
16 Phoenix, Arizona 85007

17 Mr. Christopher C. Kempley
18 Chief Counsel
19 Arizona Corporation Commission
20 1200 West Washington
21 Phoenix, Arizona 85007